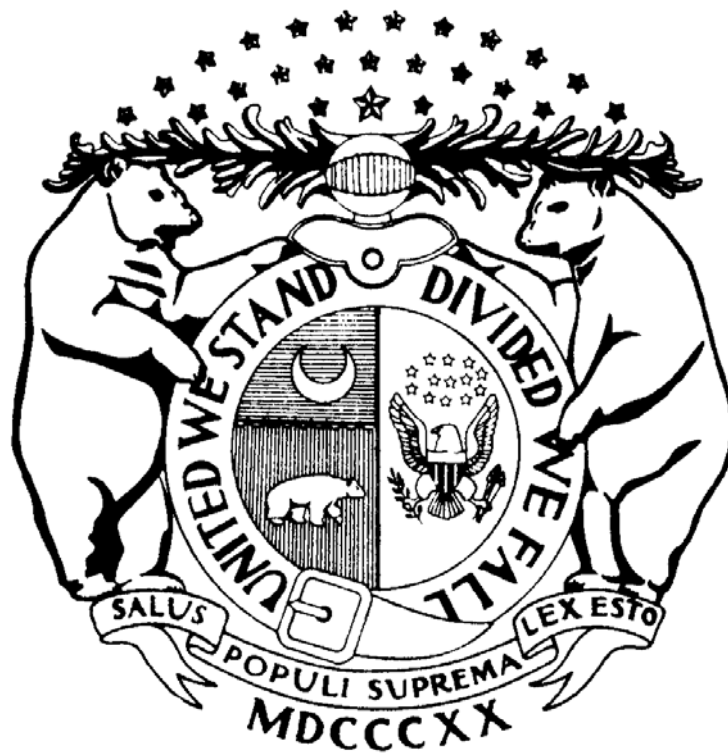


REPORT OF
ASSOCIATION FINANCIAL EXAMINATION

**AMERICAN NATIONAL PROPERTY AND
CASUALTY COMPANY**

AS OF
DECEMBER 31, 2003



STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

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Springfield, Missouri
December 29, 2004

Honorable Kevin M. McCarty, Commissioner
Office of Insurance Regulation
Florida Department of Insurance
Chairman, Financial Condition (E) Committee, NAIC

Honorable Jorge Gomez, Wisconsin, Commissioner
Office of the Commissioner of Insurance
State of Wisconsin
Secretary, Midwestern Zone, NAIC

Honorable Douglas M. Ommen, Acting Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65102-0690

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

American National Property and Casualty Company

hereinafter referred to as such, as the "Company," or as "ANPAC." Its administrative office is located at 1949 East Sunshine, Springfield, Missouri, 65899, telephone number (417) 887-4990. This examination began on July 12, 2004, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of American National Property and Casualty Company was made as of December 31, 1999, and was conducted by examiners from the States of Missouri, representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC), with no other zone participating.

The current full scope association financial examination covered the period from January 1, 2000, through December 31, 2003, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zone participating.

This examination was conducted concurrently with the examination of the Company's subsidiary, American National General Insurance Company (ANGIC).

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri prevailed.

The examiners reviewed the work of the Company's independent auditor, KPMG LLP, of Houston, Texas, for its audit covering the period from January 1, 2003, through

December 31, 2003. Due to differences in approach and timing of the work of the independent auditors, only minimal use was made of the work of the independent auditors.

Comments-Previous Examination

The comments, recommendations, and notes of the previous financial examination report dated as of December 31, 1999, are listed below with the subsequent response or action taken by the Company in regard to such comments, recommendations, and notes:

Intercompany Transactions

Comment: ANPAC had a lease agreement with American National Insurance Company (ANICO) for regional office space, which was not filed with the Missouri Department of Insurance (MDI). The Company was directed to submit a Form D filing for this lease agreement to the MDI in accordance with Section 382.195 RSMo (Transactions within a holding company system).

Company's Response: The Company submitted the agreement to the MDI as directed.

Current Findings: The lease agreement for regional office space was filed and approved by the MDI on May 24, 2001. However, the agreement and renewal option terms in the agreement were set to expire during 2003. ANICO and its affiliates entered into a service agreement effective November 1, 2001, which governs leasing of the regional office space by ANPAC. This agreement was not filed with the MDI [see the "Affiliated Companies" section of this report under Intercompany Transactions].

Intercompany Transactions

Comment: The Company was providing cash management services to certain affiliates without a written agreement in violation of Section 382.195 RSMo (Transactions within a holding company system).

Company's Response: The Company agreed to enter into a written agreement with the affiliates and comply with the applicable laws.

Current Findings: The agreement was properly filed with the MDI.

Fidelity Bond and Other Insurance

Comment: The Company did not have fidelity bond coverage. It was recommended that the Company obtain this coverage or an indemnification agreement from its parent, ANICO.

Company's Response: The Company, along with its insurance subsidiary, ANGIC, has obtained fidelity bond coverage that satisfies the NAIC suggested minimum amount.

Current Findings: Additional problems were noted. See the Fidelity Bond and Other Insurance section of this report for additional details.

Reinsurance

Comment: The examination noted that the insolvency clause in the property and catastrophe excess of loss agreement, the multi-line excess of loss agreement and the quota share credit agreement did not comply with the applicable Missouri insurance regulation.

Company's Response: ANPAC amended the agreements to comply with the insolvency clause requirement and filed the amended agreements with the MDI.

Current Findings: No problems were noted regarding insolvency clause in the reinsurance agreements reviewed.

Accounts and Records

General

Comment: ANPAC was cited for violating a certain Missouri insurance regulation, which requires Missouri insurance companies to respond to examination requests in a timely manner.

Company's Response: ANPAC strongly disagreed with the comment. However, the Company did acknowledge the incompleteness in the data provided to the examiners regarding its CASHBACK program.

Current Findings: No material delays were experienced during the current examination.

CASHBACK Program

Comment: It was noted that the Company could not provide adequate supporting documentation for the reserve liability related to its CASHBACK program.

Company's Response: ANPAC strongly disagreed with the comment. However, the Company did acknowledge the incompleteness in the data provided to the examiners regarding its CASHBACK program.

Current Findings: See the Accounts and Records section of this report for detail documentation of additional problems encountered by this examination.

HISTORY

General

American National Property and Casualty Company was incorporated on October 3, 1973, and commenced business on January 2, 1974. The Company operates as a stock casualty company under the laws of Chapter 379 (Insurance other than life), Revised Statutes of Missouri (RSMo).

Capital Stock

The Company is wholly owned by American National Property and Casualty Holding Company, LLC, a Nevada corporation, which in turn, is wholly owned by American National Insurance Company (ANICO), a Texas corporation located in Galveston, Texas. As of December 31, 2003, the Company had authority to issue 125,000 shares of common stock with a par value of \$20 per share. There were 125,000 shares outstanding for a balance of \$2,500,000 in the capital account.

Dividends

No dividends were paid during the period under examination.

Management

As of December 31, 2003, nine directors were serving on the board as follows:

<u>Name</u>	<u>Address</u>	<u>Occupation and Business Affiliation</u>
Charles H. Addison	Galveston, TX	Senior Vice President – Systems Planning American National Insurance Company
Robert J. Campbell	Springfield, MO	Senior Vice President, General Counsel, Secretary and Chief Claims Officer ANPAC and ANGIC
G. Richard Ferdinandsten	Galveston, TX	President & Chief Operating Officer American National Insurance Company
Robert A. Fruend	St. Charles, MO	Executive Vice President – Special Markets American National Insurance Company
Irwin M. Herz, Jr.	Galveston, TX	Attorney Greer, Herz & Adams, LLP
Ross R. Moody	Austin, TX	President National Western Life Insurance Company
Gregory V. Ostergren	Springfield, MO	Chairman, President and Chief Executive ANPAC and ANGIC
Stephen E. Pavlicek	Galveston, TX	Senior Vice President and Controller American National Insurance Company
Ronald J. Welch	Galveston, TX	Senior Vice President and Chief Actuary American National Insurance Company

The Executive Management Committee members elected and serving as of December 31, 2003, were the following directors: G. Richard Ferdinandtsen and Gregory V. Ostergren.

The Finance Committee members elected and serving as of December 31, 2003, were the following individuals: S.F. Brast, D.D. Brichler, F.V. Broll, G.D. Dixon, G.R. Ferdinandtsen, Ann LeMire, M.W. McCroskey, W.L. Moody, IV, R.L. Moody, and J. Mark Flippin.

The officers elected and serving as of December 31, 2003, were as follows:

Gregory V. Ostergren	Chairman of the Board – President & CEO
G. Richard Ferdinandtsen	Vice Chairman of the Board
Robert J. Campbell	Senior Vice President, General Counsel, Secretary and Chief Claims Officer

James A. Cybulski
Byron W. Smith
Linda F. Ward

Controller/Treasurer
Vice President – Actuarial Services
Assistant Vice President – Corporate Actuary

Conflict of Interest

The Company requires all directors and officers to complete conflict of interest disclosure statements annually. The statements were reviewed for the period under examination. No material conflicts were indicated.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws for the examination period. The minutes of the Company's board of directors and the shareholder's meetings were reviewed and appear to properly reflect and approve the corporate transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

The following material corporate events occurred during the period under examination:

- On September 28, 2000, ANPAC contributed \$10 million in cash to form a wholly owned subsidiary, ANPAC Louisiana Insurance Company (ANPAC-Louisiana). ANPAC-Louisiana is a property and casualty insurance company domiciled in the State of Louisiana. The Company made an additional contribution of debt securities with a market value of \$5,574,674 to ANPAC-Louisiana on December 31, 2003.
- On April 20, 2000, ANPAC contributed \$5 million of capital in cash to form a wholly-owned subsidiary, Pacific Property & Casualty Company (Pacific Property), a California property and casualty insurer. Pacific Property became operational in October 2000.
- In June 2002, ANPAC's then direct parent ANICO contributed all outstanding common stock shares of ANPAC to ANICO's subsidiary, American National Property and Casualty Holding Company, LLC (ANPAC Holding), a Nevada corporation. ANPAC Holding became the direct parent of ANPAC as a result of the

transaction. The purpose of the reorganization was to consolidate the ANICO property and casualty operations into one entity to simplify management. The transaction did not change the ultimate control of ANPAC.

- On June 30, 2002, the Company issued a surplus note in the amount of \$50 million to ANPAC Holding. Under the terms of the surplus note, an annual payment of \$5 million plus interest at 7.5% is due each March 31st upon prior approval by the Director of the MDI.
- On July 31, 2002, ANPAC purchased American National Corporate Center, the Company's home office building in Springfield, Missouri from ANICO, for \$17 million, the appraisal value on that date.
- On July 31, 2002, ANPAC contributed \$5 million of capital in cash to a wholly-owned subsidiary, ANPAC Lloyd's Insurance Management, Inc., the attorney-in-fact of American National Lloyd's Insurance Company, a Texas Lloyd's company.
- Effective July 1, 2003, ANPAC assumed an initial block of approximately \$40 million in written premium from Royal Indemnity Company covering its credit business. Later on in 2003, an additional \$20 million was assumed. All the assumed premiums were ceded to ANICO, who, in turn, retroceded 50% of the business back to ANPAC.

Surplus Debentures

On June 28, 2002, the Company issued a surplus note in the amount of \$50 million to its parent, ANPAC Holding. Under the terms of the surplus note, an annual payment of \$5 million plus interest at 7.5% is due each March 31st, subject to approval by the Director of the Missouri Department of Insurance and minimum surplus stipulations. The surplus note allows for the deferral of interest and principal payments at the discretion of the Board of Directors of ANPAC.

ANPAC made interest payments of \$2,812,500 and \$3,750,000 on June 11, 2003 and June 30, 2004, respectively, as approved by the Director of the Missouri Department of Insurance. No principal payments were made during the examination period.

AFFILIATED COMPANIES**Holding Company, Subsidiaries and Affiliates**

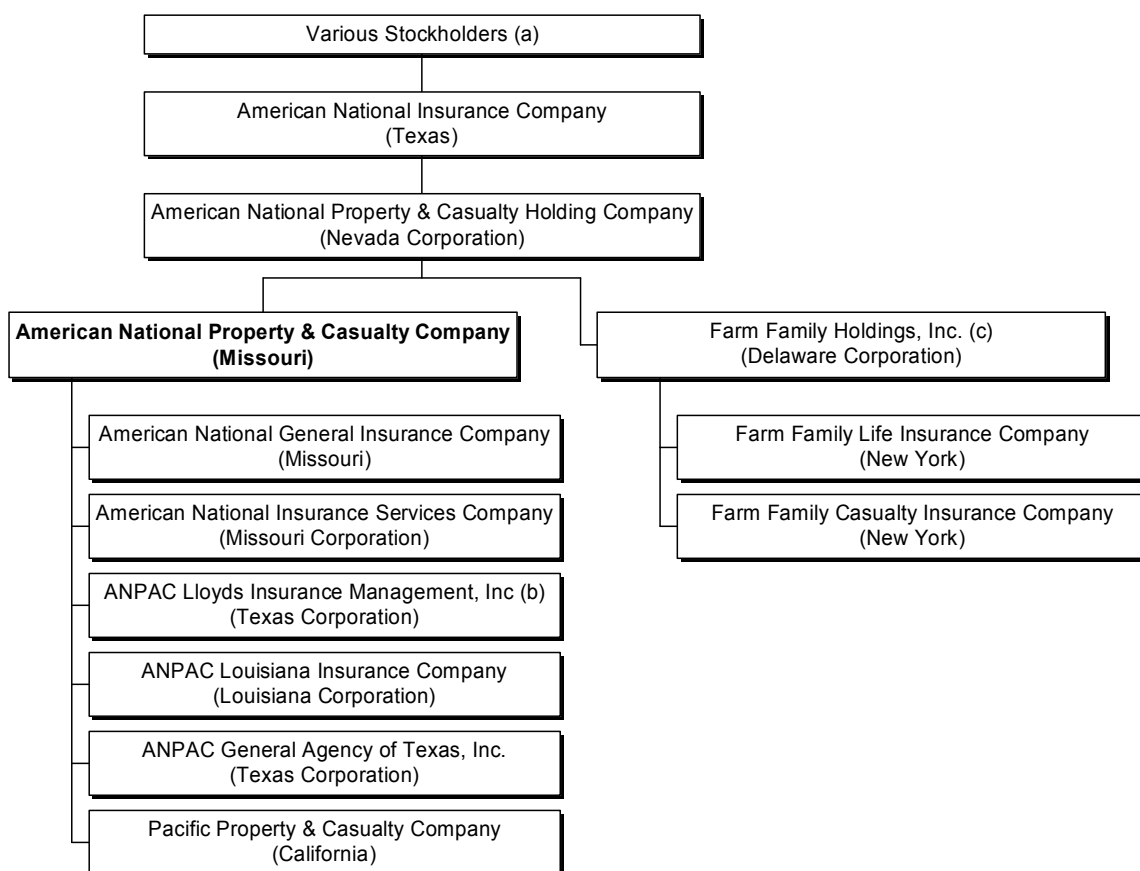
American National Property and Casualty Company is a member of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). In June 2002, ANPAC's then direct parent, ANICO, contributed all outstanding common stock shares of ANPAC to ANICO's subsidiary, American National Property and Casualty Holding Company, LLC (ANPAC Holding), a Nevada corporation. ANPAC Holding became the direct parent of ANPAC as a result of the transaction. ANPAC Holding is owned 94% by ANICO and 6% by Comprehensive Investment Services, Inc., which is wholly owned by ANICO. ANICO, a stock casualty company domiciled in Texas, is 23.69% owned by the Moody Foundation and 37.57% by the Libbie S. Moody Trust. The remaining stock ownership interest is publicly traded.

American National Property and Casualty Company wholly owns the following subsidiaries: American National General Insurance Company (ANGIC), a Missouri property and casualty insurance company; American National Insurance Services Company (ANISCO), a Missouri corporation that brokers commercial lines; ANPAC Lloyd's Insurance Management, Inc. (ANLIM), a Texas corporation which serves as attorney-in-fact for American National Lloyd's Insurance Company (ANLIC); ANPAC Louisiana Insurance Company (ANPAC-Louisiana), a Louisiana property and casualty insurance company; Pacific Property and Casualty Company (Pacific Property), a California property and casualty insurance company; and ANPAC General Agency of Texas, Inc. (ANGAT).

Insurance Holding Company System Registration Statements have been filed by American National Property and Casualty Company with the Missouri Department of Insurance on behalf of itself and its subsidiary, American National General Insurance Company, for the period under examination.

Organizational Chart

The following organizational chart depicts the ownership and holding company structure of ANPAC, as of December 31, 2003:



(a) Those stockholders owning 10% or more of the outstanding stock at December 31, 2003, are Libby S. Moody Trust (37.57%) and the Moody Foundation (23.69%).

(b) ANPAC Lloyd's Insurance Management, Inc. is the attorney-in-fact for American National Lloyd's Insurance Company, domiciled in Texas.

- (c) Farm Family Holdings, Inc. is owned 94.3% by ANPAC Holding Company, LLC; 0.7% by Comprehensive Investment Services, Inc, a wholly owned subsidiary of ANICO; and 5.0% owned by TMNY Investments, LLC, which is 17.0% owned by ANICO, 17.0% owned by ANPAC, and 66.0% owned by employees of the holding company group.

Intercompany Transactions

American National Property and Casualty Company has the following agreements with its affiliated companies as follows:

1. Type: Lease Agreement – Home Office
Parties: ANICO
Effective: July 1, 2001
Terms: ANPAC rented office space from ANICO for its home office location in Springfield, Missouri. The agreement was effectively terminated on July 31, 2002, when ANPAC purchased the office building from ANICO for \$17 million, the appraisal value of the building on that date.
2. Type: Service Agreement
Parties: ANICO and various named affiliates
Effective: November 1, 2001
Terms: ANICO is to provide certain operational services to named affiliates such as actuarial, accounting office facilities, etc., and likewise, named affiliates may provide certain operational services to ANICO and other named affiliates. Reimbursement is to be on a cost or, where appropriate, fair market value basis. The intent of this agreement regarding ANPAC was to address the lease of its regional office space in League City, Texas from ANICO. This agreement supersedes a prior lease agreement between ANICO and ANPAC that was effective on May 24, 2001.
Exception: This service agreement has not been filed with the Missouri Department of Insurance (MDI). The Company is directed to submit a Form D filing for this service agreement to the MDI in accordance with Section 382.195 RSMo (Transactions within a holding company system).

3. Type: Service Agreement

Parties: ANICO and ANPAC, ANGIC

Effective: December 31, 1991

Terms: ANICO provides certain operational services to ANPAC and ANGIC for actual cost.
4. Type: Service Agreement

Parties: ANPAC and ANGIC

Effective: December 31, 1998

Terms: ANPAC provides operational facilities and services to ANGIC at cost. Costs are allocated on various measures, primarily as cost per policy, or cost per claim.
5. Type: Service Agreement

Parties: ANPAC and ANLIM

Effective: August 15, 1994

Terms: ANPAC provides, at actual cost, necessary operational services and facilities for ANPAC Lloyds Insurance Management, Inc. to perform as attorney-in-fact for American National Lloyds Insurance Company.
6. Type: Service Agreement

Parties: ANPAC and ANISCO

Effective: November 12, 1979

Terms: ANPAC provides necessary operational services and facilities for ANISCO to operate as a broker of commercial lines business. ANISCO agrees to reimburse ANPAC a percentage of gross commissions received, such percentage varying from year-to-year. As ANISCO did not broker any business for ANPAC during the examination period, no fees were received under the agreement during the examination period.

7. Type: Service Agreement

Parties: ANGAT and ANPAC, ANGIC

Effective: February 1, 1992

Terms: ANPAC and ANGIC allow ANGAT to use their captive agents to place business in the state of Texas for Progressive Casualty Insurance Company. ANGAT pays ANPAC gross commissions received by ANGAT, net of expenses incurred.
8. Type: Service Agreement

Parties: ANPAC and Pacific Property

Effective: January 31, 1996

Terms: ANPAC provides various administrative, accounting and other incidental services to Pacific Property on a cost basis.
9. Type: Service Agreement

Parties: ANPAC and ANPAC-Louisiana

Effective: November 1, 2001

Terms: ANPAC provides various administrative, accounting and other incidental services to ANPAC-Louisiana at cost.
10. Type: Tax Sharing Agreement

Parties: ANICO and ANPAC, ANGIC, and various other affiliates

Effective: January 1, 1996

Terms: Each member's tax expense is calculated separately on the tax rate of the affiliated group. Any net operating loss benefits are received on a "wait and see" method, which provides for the Company to receive its tax benefit when it can absorb the loss on a separate-company-basis in a later year.
11. Type: Service Agreement

Parties: Farm Family Life Insurance Company (FFLIC)

Effective: April 10, 2001

- Terms: ANPAC is to provide various administrative, accounting and other incidental services to FFLIC at cost. No services have been provided under the agreement as of the examination date.
12. Type: Service Agreement
- Parties: Farm Family Casualty Insurance Company (FFCIC)
- Effective: April 10, 2001
- Terms: The agreement allows for ANPAC and FFCIC to both provide to and receive from the other, services related to insurance business ceded to FFCIC under a quota share reinsurance agreement. The services are to be provided at cost.
13. Type: Management Fee Allocation Agreement
- Parties: American National County Mutual Insurance Company (County Mutual) and ANICO
- Effective: July 1, 2001
- Terms: Under the agreement, ANICO delegates its authority for the management of the property and casualty business of County Mutual to ANPAC, as allowed for under the management service contract between ANICO and County Mutual. ANICO agrees to pay ANPAC a portion of the management fee received from County Mutual, which is equal to the proportion of net premium of County Mutual generated by agents appointed by ANPAC bears to the total net premium of County Mutual.
14. Type: Cash Management Agreement
- Parties: ANPAC and ANGIC, ANLIM, ANPAC-Louisiana, Property Pacific and other affiliates
- Effective: January 1, 2002
- Terms: ANPAC provides certain cash management services to subsidiaries and affiliates, which includes the timely processing of premium payments for each party, among other functions, at cost.

Additional related party transactions are noted in the [Acquisitions, Mergers and Major Corporate Events] section of this report.

The amounts (paid) to and received from subsidiaries during the period under examination under the above agreements were as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Lease Agreement – ANICO (a)	\$ (0)	\$(1,048,945)	\$(1,104,999)	\$(1,109,257)
Service Agreement (Lease) – ANICO	(209,559)	(267,559)	(207,394)	(203,226)
Service Agreement – ANICO	(1,590,936)	(1,619,227)	(1,709,856)	(358,656)
Service Agreement – ANGIC	3,851,217	4,061,813	3,663,078	3,150,002
Service Agreement – ANISCO (c)	0	0	0	0
Service Agreement – ANGAT	77,391	85,324	105,685	79,439
Service Agreement – ANLIM	1,536,183	1,565,518	1,482,603	1,374,400
Service Agreement – Pacific	1,309,574	1,017,372	799,526	47,979
Service Agreement – ANPAC Louisiana	2,621,350	1,948,196	45,677	0
Service Agreement – Farm Family Life (c)	0	0	0	0
Service Agreement – Farm Family Casualty	2,325,981	227,462	51,902	0
Service Agreement - County Mutual (c)	355,299	89,837	0	0
Cash Management Agreement – ANGIC (b)	18,068	18,194	0	0
Cash Management Agreement – ANLIC (b)	13,622	10,679	0	0
Cash Management Agreement – County Mutual (b)	0	0	0	0
Cash Management Agreement – Pacific (b)	10,943	7,364	0	0
Cash Management Agreement – ANPAC Louisiana (b)	19,389	14,130	0	0
Tax Sharing Agreement – ANICO	<u>(13,627,340)</u>	<u>(8,286,862)</u>	<u>4,940,450</u>	<u>(3,011,182)</u>
Net Amount (Paid)/Received	<u>\$(3,288,818)</u>	<u>\$(2,176,704)</u>	<u>\$8,066,672</u>	<u>\$(30,501)</u>

(a) *The agreement was effectively terminated on July 31, 2002, when ANPAC purchased the home office building from ANICO.*

- (b) *Prior to the inception of the 2002 cash management agreement, any service fees related to the cash management arrangement were generally considered inclusive in the service agreements with ANPAC and respective affiliates.*
- (c) *No services were provided during the period indicated.*

The Company cedes business under quota share reinsurance agreements with affiliates ANICO and Farm Family Casualty Insurance Company. The Company also assumes business from several affiliates. The terms of the agreements are described in the Reinsurance section of this report.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond policy maintained by its ultimate parent, American National Insurance Company (ANICO). The aggregate limit of coverage is \$3 million, with a single loss limit and deductible of \$1.5 million and \$50,000, respectively. This level of coverage is less than the NAIC's suggested minimum fidelity bond coverage on a consolidated basis of \$4 million for all the named insureds. The Company is directed to increase the liability limit on the fidelity bond policy to a minimum of \$4 million.

The Company is also a named insured on other insurance policies maintained by ANICO. These policies include the following coverages: commercial general liability, excess liability, automobile liability, workers compensation and employer's liability, property replacement, and directors and officers liability.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

A variety of standard benefits are provided and available to ANPAC employees which include, but are not limited to: medical and disability coverages; term life insurance; retirement and 401(k) savings plans; and executive incentive plans. Adequate provision appears to have been made in the Company's financial statements with regards to its obligations for these benefits.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2003, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 379.098, RSMo (Securities Deposit). The Company's required deposit for Missouri is \$1,200,000. The funds on deposit as of December 31, 2003, were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Notes	\$2,150,000	\$2,287,320	\$2,143,635

Deposits with Other States Agencies

The Company also had funds on deposit with various other states in which it is licensed. Those funds on deposit as of December 31, 2003, were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Georgia	U.S. Treasury Note	\$100,000	\$107,875	\$99,928
Idaho	U.S. Treasury Note	260,000	260,081	259,376
Louisiana	U.S. Treasury Note	22,000	23,733	21,984
N. Mexico	U.S. Treasury Note	375,000	378,493	374,533
Ohio	U.S. Treasury Note	260,000	275,600	258,578
Oregon	U.S. Treasury Note	110,000	109,669	109,669
Virginia	Cash	225,000	225,000	225,000
Arkansas	U.S. Treasury Note	<u>60,000</u>	<u>64,425</u>	<u>61,138</u>
Totals		<u>\$1,412,000</u>	<u>\$1,444,876</u>	<u>\$1,410,206</u>

Other Deposits

Effective September 2, 2003, the Company established a trust with United Missouri Bank for reserves assumed from Royal Surplus Lines Insurance Company (RSLIC). The beneficiary of the trust is Royal Indemnity Company (Royal Indemnity), an affiliate of RSLIC. See additional details in the Reinsurance section of this report.

The following assets were held in the trust account as of December 31, 2003:

<u>Security Issuer</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Associates Corp. N.A.	Medium Term Senior Note	\$2,000,000	\$1,999,247	\$1,999,247
BankBoston	Medium Term Note	3,000,000	2,929,422	2,929,422
Cargill, Inc.	Medium Term Note	2,300,000	2,275,001	2,275,001
Chase Manhattan Corp.	Subordinated Note	2,000,000	2,239,080	1,978,620
Coca Cola	Debenture	2,000,000	2,177,500	1,929,842

Enterprises

Consolidated Edison	Series A Debenture	5,500,000	5,880,655	5,477,794
First Bank	Subordinated Note	4,500,000	5,094,045	4,414,011
JP Morgan Chase	Subordinated Note	3,000,000	3,202,500	2,961,831
NationsBank Corp.	Subordinated Note	3,000,000	3,265,710	2,949,575
Nynex Capital Funding	Medium Term Note	2,000,000	1,998,868	1,998,868
Pacific Bell	Debenture	2,000,000	2,225,540	1,986,130
Rockland Electric Co.	144A First Mortgage	3,000,000	3,365,340	2,977,598
Sara Lee Corp.	Medium Term Note	2,000,000	1,995,639	1,995,639
Texas Instruments	Unsecured Note	4,000,000	4,301,640	3,897,271
Hydro-Quebec	Medium Term Note	4,000,000	3,993,416	3,993,416
Fidelity Treasury	Short-Term Investment	<u>\$5.02</u>	<u>\$5.02</u>	<u>\$5.02</u>
Totals		<u>\$44,300,005</u>	<u>\$46,943,608</u>	<u>\$43,764,270</u>

The assets held in a trust account as listed above were not disclosed on Schedule E – Part 3 (Special Deposits) of the 2003 Annual Statement. The NAIC Annual Statement Instructions require disclosure of assets in a trust, since these assets are not available for the benefit of all policyholders, claimants, and creditors of the Company. The Company should ensure that the trust assets are properly listed on Schedule E – Part 3 of the Annual Statement in the future.

INSURANCE PRODUCTS AND RELATED PRACTICES**Territory and Plan of Operations**

American National Property and Casualty Company is licensed as a multiple-line stock casualty company by the Missouri Department of Insurance under Chapter 379 RSMo (Insurance other than life) to write the business of property and casualty insurance in the State of Missouri. As of December 31, 2003, the Company was licensed to transact the business of insurance in forty states and the District of Columbia.

The Company offers a large variety of products including preferred private passenger automobile, homeowners, rental dwelling, boat owner, recreational vehicles, umbrella, and business owner's insurance coverage. As of December 31, 2003, the Company's largest line of business with approximately 34% of the total direct written premium was private passenger automobile coverage, followed by homeowner's coverage (25%) and automobile physical damage (23%). Major direct premium writings by state were (in millions): Colorado (\$43.9), Florida (\$41.6), Tennessee (\$36.7), Minnesota (\$35.7) and Missouri (\$31.0).

Approximately 1,600 captive agents and general agents sell the Company's products. The Company is required under Section 375.147 through 153 RSMo (Managing General Agents statutes) and Missouri Regulation 20 CSR 200-10 (Managing General Agents regulations) to perform semi-annual, on-site review of its Managing General Agents (MGA) operations. The Company could not provide any documented evidence of its compliance as required by these statutes. The Company is directed to perform its statutory functions with respect to its MGAs. Evidentiary documentation attesting to this compliance should be maintained. Additionally, the Company

improperly entered into an MGA agreement with Aerospace Insurance Managers, Inc., (Aerospace). At the time the agreement was entered into, Aerospace was not a licensed MGA by the state of Missouri as required by Section 375.149 RSMo (License Required; Surety Requirements). The Company is directed to require all current MGAs to be so licensed as required by law and should henceforth ensure that all future MGAs are licensed prior to entering into agreements with the Company.

During the second quarter of 2004, the Company started offering workers' compensation policies on a limited basis; the Company's current plan is to link this product with its agri-business and small commercial products and use it as an additional marketing tool. The Company is authorized to write workers' compensation in Missouri and Tennessee, and is filing for authority to write workers' compensation in all other states where the Company is currently licensed.

The Company offers a program, referred to as CASHBACK, to its policyholders in a majority of the states in which ANPAC writes business. Under this program, the Company returns 25% of the premiums to the policyholder if for three years the insured is both claim-free and has continuous policies for both comprehensive automobile and homeowners. Other than for Wisconsin policyholders who are charged a \$35 enrollment fee to join the CASHBACK program, enrollment is free and automatic. Some accounting and reporting issues were noted during this examination about the CASHBACK program. See the Accounts and Records section of this report for more details.

Policy Forms & Underwriting

Advertising & Sales Material

Treatment of Policyholders

The Missouri Department of Insurance has a market conduct staff, which performs a review of these issues and generates a separate market conduct report. The most recent Missouri Department of Insurance Market Conduct examination report was made public on February 21, 1997. No problems were disclosed which would appear to have a significant effect on the financial condition of the Company.

A cursory review was made of several market conduct related areas of the Company during the examination. No problems were noted.

In addition, the states of California, Illinois, Kentucky and Pennsylvania performed market conduct examinations of the Company at different times during the current financial examination period. In each of these examinations, minor errors were noted in the reports and were addressed by the Company. The errors did not have any bearing on the Company's financial position.

REINSURANCE**General**

The Company's reinsurance and premium activity for the years ending December 31, 2003, 2002, 2001 and 2000, are detailed in the table below.

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Direct Business	\$540,676,761	\$478,243,425	\$431,446,403	\$401,255,703
Reinsurance Assumed				
Affiliates	153,604,428	60,583,027	18,813,790	29,713
Non-affiliates	66,675,149	1,141,061	825,696	9,753,854
Reinsurance Ceded:				
Affiliates	(100,625,868)	(27,423,698)	(8,302,756)	(3,882,924)
Non-affiliates	<u>(42,546,005)</u>	<u>(30,170,429)</u>	<u>(17,813,499)</u>	<u>(27,984,955)</u>
Net Premiums Written	<u>\$617,784,465</u>	<u>\$482,373,386</u>	<u>\$424,969,634</u>	<u>\$379,171,391</u>

Assumed

The Company assumes 100% of all private passenger automobile business from American National County Mutual Insurance Company of Galveston, Texas, an affiliate, under a fronting arrangement. Assumed premiums in 2003 under this agreement totaled approximately \$60 million.

The Company also assumes all credit-related, and all other property and casualty insurance product policies, from ANPAC Louisiana Insurance Company, a subsidiary, on a quota share basis as follows: 100% credit-related; and 50% of non-credit business. Assumed premiums in 2003 under these two agreements totaled approximately \$24 million.

The Company also assumes any and all property and casualty insurance product policies on an excess of loss basis from Pacific Property and Casualty Company, a

subsidiary California domestic. Assumed coverage generally provides for \$450,000 excess of \$50,000; and 97.5% of \$3,500,000 excess of \$500,000. Assumed premiums in 2003 totaled approximately \$3 million under this arrangement.

The Company also assumes on a quota share basis, 80% of all premiums and losses on fire, allied lines and homeowners multiple peril policies from American National Lloyds Insurance Company (ANLIC), a subsidiary Texas domestic. ANPAC also assumes from ANLIC, on an excess of loss basis, all homeowners multiple peril losses, in excess of ultimate net loss of \$20.5 million resulting from losses occurring and/or claims made as of December 31, 2002. Assumed premiums in 2003 from ANLIC totaled approximately \$35 million.

The Company assumes on a quota share basis, 50% of all premiums and losses on credit-property policies from its ultimate parent, American National Insurance Company (ANICO). Assumed premiums in 2003 from ANICO totaled approximately \$31 million.

The Company assumes on a quota share basis, one hundred percent of all premiums and losses on credit-related policies from Royal Indemnity Company and Royal Surplus Lines Insurance Company (affiliated members of the Royal Group). Assumed premiums in 2003 totaled approximately \$63,000,000. UMB Bank is the trustee under a related trust agreement, naming both Royal Group companies as beneficiaries. Funds held in the trust, required to equal loss reserves and unearned premiums, as of December 31, 2003, amounted to approximately \$47 million at market value. [See the Statutory Deposits section of this report under "Other Deposits" for a summary listing of the trust assets.] The Company ceded 100% of this business to

ANICO, its parent, who in turn, retroceded 50% of the business to the Company [see “Ceded” section below;] and beginning in 2003 assumed back a 50% share.

Ceded

ANPAC participates with other affiliated companies (jointly referred to in this section as the “ANPAC-Group”) in a property catastrophe excess of loss reinsurance agreement, multi-line and casualty clash excess of loss reinsurance agreement, which together, are placed with multiple reinsurers in multiple layers through an intermediary, Benfield Blanch. The first multi-line layer provides \$500,000 coverage for all property and casualty risks, excluding credit property, aircraft and other specified exclusions, in excess of \$500,000 and in excess a \$5,000,000 annual aggregate retention. The second multi-line layer, covering similar risks, provides \$5,000,000 excess \$1,000,000 (\$4,000,000 property only). Casualty clash coverage for casualty perils, excluding aircraft and other specified exclusions, is also placed in two layers. The first casualty clash layer generally provides for \$5,000,000 excess of \$6,000,000; and the second layer coverage is \$10,000,000 excess of \$11,000,000.

Property catastrophe coverage for all property coverages excluding credit property, aircraft and other specified exclusions, was placed in five layers; and generally provided coverage up to a total of \$125,000,000 excess the first layer \$4,000,000 with a group participation rate of 2.5%.

Effective June 1, 1994, ANPAC entered into a 100% quota share reinsurance agreement with its parent, American National Insurance Company covering a variety of credit-related business underwritten by the Royal Group, [see the assumed section

above]. This agreement was amended effective October 1, 2003, for all assumed reinsurance as of July 1, 2003, to provide for a 50% retrocession to ANPAC.

Effective October 1, 2001, the Company entered into an 80% quota share agreement with Farm Family Casualty Insurance Company (Farm Family), an affiliate, for the agri-business policies underwritten by Farm Family in the Company's territorial limits. The agreement was amended in 2004 to cede 100% of the subject business.

Additionally, the Company fronts several immaterial blocks of business for ceding commissions and fees; and participates in various voluntary and mandatory pools.

The Company made some modifications to its reinsurance program subsequent to the period under examination, including an increase in the annual aggregate deductibles to the first multiple line excess of loss treaty from \$5 million to \$7 million; an additional \$60 million catastrophe coverage and an increase in the casualty clash coverage to \$25 million.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

Financial statements of the Company for the years ending December 31, 2003, 2002, 2001, and 2000 were audited by the CPA firm KPMG LLP of Houston, Texas. Loss reserves of the Company were reviewed and certified by John F. Butcher, FCAS, MAAA, of Tillinghast – Towers Perrin.

The following problems were noted during the review of the Company's CASHBACK program: (See the Territory and Plan of Operations section of this report for a summary description of the CASHBACK program).

1. The database housing the detail records of the program did not match the general ledger records. The report was rerun several times by the Company's information technology department over a 4-6 week period before a complete database was obtained. The problems associated with the database casts reasonable doubt about the accuracy and credibility of the results originating from the database. The Company is directed to correct this problem without delay.
2. The Company did not implement the recommendation of the previous examination requiring an actuarial certification of the persistency ratios utilized to derive the CASHBACK liability. Given the significance of these ratios in calculating the liability reserves, the Company is again directed to have its appointed actuary review and attest to the adequacy and accuracy of these ratios.
3. The Company's CASHBACK program should be accounted for and reported pursuant to the guidelines in the NAIC's Statement of Statutory Accounting Principles (SSAP) #66 (Retrospectively Rated Premiums) to ensure adequate and accurate presentation of the reserve liability. This SSAP became effective as of January 1, 2001, and should be the authoritative basis for reporting the CASHBACK program. The Company is directed to implement the accounting and reporting guidance provided by SSAP #66 with respect to the CASHBACK program.

The Company improperly classified and included the underlying liability for the CASHBACK program with unearned premium liability in the Annual Statement. According to the NAIC's Annual Statement instructions, the Company should report this liability as part of Aggregate Write-Ins for Liabilities and separately identify it below the surplus line. The Company is directed to follow the Annual Statement Instructions in reporting the CASHBACK program liability.

The Company's custodial agreement with The Moody National Bank (Moody Bank) of Galveston, Texas dated November 19, 1997, that was in effect during the examination period was deficient relative to the requirements of the NAIC, as stipulated

in the Financial Examiners Handbook. The agreement did not include a key provision requiring that the Missouri Department of Insurance must be notified within three days in the event of termination of the Agreement or the withdrawal of 100 percent of the assets under custody. The Company is directed to amend the custodial agreement to include this specific provision.

Moody Bank utilizes the services of SEI Trust (formerly known as Eagle Trust Company) in an agency relationship to provide various services for its custodial accounts. The Custody and Services Agreement between Moody Bank and SEI Trust did not include a provision that SEI Trust is subject to the same liability for loss of securities as Moody Bank. Part 1, Chapter IV, Section J, paragraph 2e of the NAIC's Financial Examiners Handbook requires that in the event that the custodian for an insurer gains entry to a clearing house through an agent, the agent must be subjected to the same liability for loss of securities as the custodian. To comply with this requirement, the Company should compel Moody Bank to either revise its agreement with SEI Trust to state that SEI Trust is subject to the same liability for loss of securities as Moody Bank or SEI Trust may be added as a party to the Custody Agreement between Moody Bank and the Company, with the agreement specifically stating that SEI Trust has the same obligations as Moody Bank with respect to the securities in custody.

Also, the Company could not provide a custodial agreement for its securities on trust with United Missouri Bank pursuant to a trust agreement under its reinsurance agreement with Royal Surplus Lines Insurance Company. The Company is directed to enter into a custodial agreement with the trustee bank and ensure that the agreement

wordings reflect in its entirety the requirements of the NAIC with respect to custodial agreements.

The book value reported by the Company of its investment in ANPAC Lloyds Management, Inc. (ANPAC Lloyds) was inaccurate; as the value did not meet or reflect the requirements of SSAP #46, paragraph 7 (b) (ii) (Investments in Subsidiary, Controlled and Affiliated Entities). This underlying SSAP states that investments in noninsurance subsidiary, controlled and affiliated ("SCA") entities that have no significant ongoing operations other than to hold assets that are primarily for the direct or indirect benefit or use of the reporting entity, must be recorded based on the underlying equity of the entity's financial statements adjusted to a statutory basis of accounting.

ANPAC reported its investment in ANPAC Lloyds at \$14 million in 2002 and 2003. The \$14 million represented the funds loaned to the Lloyds Underwriters to form American National Lloyds Insurance Company (ANLIC), a Lloyds' insurer domiciled in the state of Texas. ANLIC operates as a wholly owned subsidiary of ANPAC, manages, and controls the daily business affairs of the Lloyds insurer through ANPAC Lloyds. The statutory equity of ANLIC fell below \$14 million in 2002 and 2003 by \$7,687,329 and \$3,365,527, respectively. Since ANPAC Lloyds does not have any operations, is essentially a shell, and exists only as a holding company for ANLIC, the reported value on the books and records of the Company must be based on the underlying equity of the entity's financial statements adjusted to a statutory basis of accounting as required by SSAP #46, paragraph 7 (b) (ii). Accordingly, the value of ANPAC Lloyds must not exceed the statutory equity of ANLIC. As of the end of 2002 and 2003, the accurate value of ANPAC Lloyds in the books of ANPAC was limited to \$6,312,671 and

\$10,634,473, respectively, not the \$14 million reported. The Company is directed to report the value of its investment in ANPAC Lloyds in accordance with the guidance provided by SSAP #46, paragraph 7 (b) (ii).

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2003. Any examination adjustments to the amount reported in the Annual Statement and/or comments regarding such are made in the “Notes to the Financial Statements.” (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the “Notes to the Financial Statements”. These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore they were communicated to the Company and/or noted in the workpapers for each individual Annual Statement item.

Assets

	Ledger <u>Assets</u>	Assets Not <u>Admitted</u>	Net Admitted <u>Assets</u>
Bonds	\$522,864,141		\$522,864,141
Preferred Stocks	20,944,165		20,944,165
Common Stocks	165,359,664		165,359,664
Real Estate:			
Properties Occupied by the Company	16,324,514		16,324,514
Cash and Short-term Investments	19,194,087		19,194,087
Other Invested Assets	3,769,710		3,769,710
Investment Income Due and Accrued	9,028,624		9,028,624
Premiums and Considerations:			
Deferred Premiums, agents' Balances in course of Collection	89,112,529		89,112,529
Net Deferred Tax Asset	27,709,503	4,153,171	23,556,332
Guaranty Funds Receivable or on Deposit	1,494,429	127,337	1,367,092
Electronic Data Processing Equipment	862,194		862,194
Furniture and Equipment	2,151,824	2,151,824	0
Receivables from Parent, Subsidiaries and Affiliates	684,682		684,682
Aggregate Write-Ins for other than Invested Assets:			
Agent's Finance Plan Receivable	18,903,921	18,903,921	0
Other Assets	1,640,678	1,610,563	30,115
Computer Software	554,445	554,445	0
Capitalized Lease Commissions	128,156	128,156	0
Equities and Deposits in Pools and Associations	<u>106,618</u>	<u>0</u>	<u>106,618</u>
TOTAL ASSETS	<u>\$900,833,884</u>	<u>\$27,629,417</u>	<u>\$873,204,467</u>

Liabilities, Surplus and Other Funds

Losses	\$205,520,850
Loss Adjustment Expenses	45,779,414
Commissions Payable and Contingent Commissions	11,987,606
Other Expenses	(670,072)
Taxes, Licenses and Fees	2,695,033
Current Federal Income Taxes	7,306,614
Unearned Premiums	271,176,086
Ceded Reinsurance Premiums Payable	18,458,829
Funds Held by Company Under Reinsurance Treaties	2,499,059
Amounts Withheld or Retained by Company for Account of Others	2,219,128
Remittances and Items Not Allocated	311,378
Payable to Parent, Subsidiaries and Affiliates	<u>3,821,839</u>
Total Liabilities	\$571,105,764
Common Capital Stock	2,500,000
Surplus Notes	52,812,500
Gross Paid in and Contributed Surplus	98,107,864
Unassigned Funds (Surplus)	<u>148,678,339</u>
Surplus as Regards Policyholders	<u>\$302,098,703</u>
Total Liabilities and Surplus	<u>\$873,204,467</u>

Statement of Income

Underwriting Income

Premiums Earned	\$562,404,210
Losses Incurred	367,015,262
Loss Expenses Incurred	59,226,191
Other Underwriting Expenses Incurred	119,259,749
Total Underwriting Deductions	<u>\$545,501,202</u>
Net Underwriting Gain/(Loss)	\$16,903,008

Investment Income

Net Investment Income Earned	31,734,065
Net Realized Capital Gains or (Losses)	<u>1,376,236</u>
Net Investment Gain or (Loss)	\$33,110,301

Other Income

Net Gain (Loss) from Agents' or Premium Balances Charged Off	(931,921)
Finance and Service Charges not Included in Premiums	1,391,756
Miscellaneous Other Income	<u>2,814,903</u>
Total Other Income	\$3,274,738
Net income before dividends to policyholders and federal income taxes	\$53,288,047
Federal and foreign income taxes incurred	<u>20,752,195</u>
Net Income	<u>\$32,535,852</u>

Capital and Surplus Account

Surplus as Regards Policyholders, December 31, 2002	\$248,164,614
Net Income	32,535,852
Change in Net Unrealized Capital Gains or (Losses)	15,329,340
Change in Nonadmitted Assets	4,534,356
Change in Net Deferred Income Tax	4,347,041
Change in Surplus Notes	2,812,500
Interest Paid and Accrued on Surplus Notes	(5,625,000)
Examination Change	<u>0</u>
Net Change in Surplus as Regards Policyholders for the year	<u>\$53,934,089</u>
Surplus as Regards Policyholders, December 31, 2003	<u>\$302,098,703</u>

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Intercompany Transactions (page 11)

The Company entered into a service agreement with ANICO, its ultimate parent, effective November 1, 2001, for various services. This agreement has not been filed with the MDI as required by the Missouri holding company laws. ANPAC is directed to file this agreement in accordance with Section 382.195 RSMo (Transactions within a holding company system).

Fidelity Bond and Other Insurance (page 16)

The liability limit of \$3 million on the fidelity bond coverage provided by the Company's ultimate parent is less than the NAIC's suggested minimum fidelity bond coverage for all the named insureds on the policy. The Company is directed to increase the liability limit on the fidelity bond policy to a minimum of \$4 million.

Other Deposits (page 19)

The assets held in a trust account as part of the Company's reinsurance agreement with Royal Surplus Lines Insurance Company were not disclosed on Schedule E - Part 3 (Special Deposits) of the 2003 Annual Statement. The NAIC Annual Statement Instructions require disclosure of assets in a trust, since these assets are not for the benefit of all policyholders, claimants, and creditors of the Company. The Company should ensure that the trust assets are properly listed on Schedule E - Part 3 of the Annual Statement in the future.

Territory and Plan of Operation (pages 20 through 21)

The Company could not provide documentation of the semi-annual reviews of its appointed MGAs as required by Section 375.147 through 153 RSMo (Managing General Agents statutes) and Missouri Regulation 20 CSR 200-10 (Managing General Agents regulations). The Company is directed to perform its statutory functions with respect to its MGAs. Evidence of such compliance should be maintained for review during future examinations.

The Company improperly appointed Aerospace Insurance Managers Inc. as an MGA without licensure by the state of Missouri as required by Section 375.149 RSMo (License Required; Surety Requirements). The Company is directed to require all current

MGAs to be so licensed as required by law and should henceforth ensure that all future MGAs are licensed prior to entering into agreements with the Company.

Accounts and Records (pages 27)

The accuracy and adequacy of the reported liability for the Company's CASHBACK program to qualified insureds is compromised by the following problems noted by the examination:

1. The underlying database did not match the summary reports underlying the Annual Statement amount. It required numerous runs of the Company's computer system by its informational system personnel to obtain a usable download.
2. Given the significance of the persistency ratios in calculating the liability reserves, the Company should have its appointed actuary review and attest to the adequacy of these ratios.
3. The accounting and reporting practice employed by the Company is not consistent with the guidance provided by SSAP #66, which covers transactions similar to the CASHBACK program.
4. The Company improperly included the liability for the CASHBACK program as part of the unearned premium liability on the Annual Statement. NAIC's Annual Statement Instructions requires that this liability be reported as part of Aggregate Write-Ins for Liabilities and separately identified below the surplus line on the Annual Statement.

The Company is directed to implement and/or correct the issues noted above without delay.

Custodial Agreements (pages 28 through 29)

The custodial agreement with Moody Bank did not contain all the controls and safeguards required for such agreements as contained in the NAIC's Financial Examiners Handbook. The Company is directed to update its custodial agreement with Moody Bank to comply with the required standard.

The custodial agreement with Moody Bank should be amended to include the obligations of a third party agent (SEI Trust) under the agreement. Alternatively a new agreement between SEI Trust and Moody Bank should be consummated, specifically documenting the relationship of the parties with ANPAC and their separate obligations to the Company with respect to the securities under custody.

The Company could not provide a custodial agreement for its securities on trust with United Missouri Bank pursuant to a trust agreement under its reinsurance agreement with Royal Surplus Lines Insurance Company. The Company is directed to enter into a custodial agreement with the trustee bank and ensure that the agreement wordings reflect in its entirety the requirements of the NAIC with respect to custodial agreements.

SCA Valuation (pages 29 through 30)

The Company overstated the value of its investment in ANPAC Lloyds Management, Inc. (ANPAC Lloyds), a wholly owned subsidiary incorporated in Texas. The Company calculated the value of ANPAC Lloyds without following the requirements of SSAP #46, paragraph 7 (b) (ii) (Investments in Subsidiary, Controlled and Affiliated Entities). Based on our materiality threshold, no examination change was made to reflect this overstatement at this time. The Company is directed to report the value of its investment in ANPAC Lloyds in accordance with the guidance provided by SSAP #46, paragraph 7 (b) (ii) in the future.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of American National Property and Casualty Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Andy Balas, CFE, Shawn Hernandez, CFE, Bernie Troop, CFE, Shannon Schmoeger, CFE, and Karen Baldree, CPA, CFE, examiners for the Missouri Department of Insurance, participated in this examination. Taylor - Walker & Associates, Incorporated of Midvale, Utah performed the actuarial portion of this examination.

VERIFICATION

State of Missouri)
)
 County of)

I, Levi N. Nwasoria, CPA, CFE, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

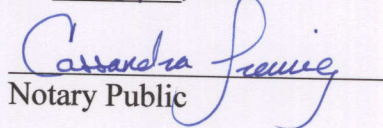


Levi N. Nwasoria, CPA, CFE
 Examiner-In-Charge
 Missouri Department of Insurance

Sworn to and subscribed before me this 23 day of March, 2005.

My commission expires:

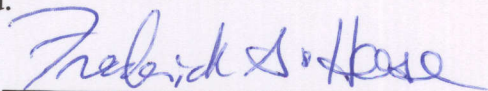
2/3/2009



Notary Public

**SUPERVISION**

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Frederick G. Heese, CFE, CPA
 Audit Manager
 Missouri Department of Insurance

American National Corporate Centre
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<http://www.anpac.com>

American National Property And Casualty Co.
American National General Insurance Co.
American National Lloyds Insurance Co.
Pacific Property And Casualty Co.
ANPAC Louisiana Insurance Co.
American National County Mutual Insurance Co.

March 16, 2005

Mr. James M. Cybulski
Vice President/Controller
American National Property and Casualty Company
American National Corporate Centre
1949 East Sunshine
Springfield, Missouri 65899

Mr. Kirk Schmidt, CFE, CPA
Chief Financial Examiner
State of Missouri
Department of Insurance
P.O. Box 690
Jefferson City, Missouri 65102-0690

RECEIVED
MAR 17 2005
MO INS DEPT

Dear Mr. Schmidt:

In accordance with your letter of February 9, 2005, I am including responses to the General Comments and/or Recommendations contained on page 34 of your Examination Report. They are as follows:

Intercompany Transactions

The Company has completed the service agreement with ANICO, its ultimate parent, and will be filing this agreement in accordance with Section 382.195 RSMo.

Fidelity Bond and Other Insurance

The Company will direct this matter to the ANPAC Board of Directors at the upcoming board meeting to be held April 29, 2005 for its consideration and will take the appropriate action based on the Board's decision.

Other Deposits

The assets held in a trust account as part of the Company's reinsurance agreement with Royal Surplus Lines Insurance Company were disclosed on Schedule E-Part 3 of the 2004 Annual Statement.



Territory and Plan of Operation

In accordance with Section 375.147 through 153 RSMo (Managing General Agents Statutes) and Missouri Regulation 20 CSR 200-10 (Managing General Agents Regulations), the Company will perform its statutory functions with respect to its MGAs and will maintain evidence of such reviews. The Company will also insure that it is in compliance with Section 375.149 RSMo (License Required; Surety Requirements) in its appointment of MGAs in the future.

Accounts and Records

In regards to the reported liability for the Company's CASHBACK program, the following problems have been corrected:

1. The computer program matching the detail reports to the summary programs has been corrected. The summary reports and the amounts reported were correct, it was the computer program that listed the underlying database that was incorrect.
2. Unearned premium for CASHBACK was recorded as a write-in item on the 2004 Annual Statement, Page 3, line 2301. In prior years it was included with the unearned premium on Page 3, line 9.

Custodial Agreements

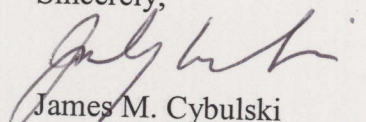
The Company is currently working with Moody National Bank to amend its custodial agreement, specifically documenting the relationship between SEI Trust and Moody National Bank. The Company is also currently working with United Missouri Bank to provide a custodial agreement along with its current trust agreement.

SCA Valuation

The Company will monitor its valuation of ANPAC Lloyds Management, Inc., a wholly owned subsidiary incorporated in Texas, to insure that requirements of SSAP #46, paragraph 7(b)(ii) (Investments in Subsidiary, Controlled and Affiliated Entities) are followed. The guidelines were followed in the 2004 Annual Statement.

I trust you will find this satisfactory. If you have any questions please let me know.

Sincerely,


James M. Cybulski
Vice President/Controller